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SUBJECT: CHANCELLOR MERKEL TURNS INWARD TO ADDRESS DOMESTIC CHALLENGES

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Classified By: CDA JOHN M. KOENIG FOR REASONS 1.4 (B,D)

¶1. (C) Summary. Chancellor Angela Merkel (CDU) remains the odds-on favorite to prevail as chancellor in the national parliamentary elections on September 27, 2009, but her poll numbers are dropping and the contest looks increasingly open.

Nagging problems with rivals inside her party and a dour economic forecast will continue to test Merkel's political mettle and will demand her full attention, which could diminish her engagement on key parts of the United States, substantive agenda. The SPD has tried to cast her as losing control, and her political rival, SPD Foreign Minister Steinmeier, has endeavored to boost his stature at home by embracing the new U.S. Administration. Merkel's foreign policy approach at present is largely reactive and focused as much on avoiding potential U.S. requests for support that might threaten her re-election chances as it is on shaping the bilateral agenda to face common challenges. Steinmeier's more forward-leaning posture toward the Obama Administration, however, could prod Merkel and her Chancellery to take a more proactive approach towards the U.S. with the aim of cramping Steinmeier's style. It will become increasingly difficult over the next six months to engage with "one" Germany on the transatlantic agenda. End Summary.

MERKEL TURNS INWARD

¶2. (C) The ten-point lead Merkel's CDU/CSU has held in the polls is withering in the run-up to the EU Parliament elections on June 7 and the national parliamentary elections September 27. Polling data released March 5 by the ARD network showed the CDU/CSU with a five-point lead over the SPD (32 to 27 percent). This is the smallest lead for Merkel in well over a year (and is not replicated in other recent polls). There are several competing explanations for the narrowing gap. Ongoing domestic squabbles within her Christian Democratic Union (CDU) and its Bavarian sister-party the Christian Social Union (CSU), and three years within a Grand Coalition with the SPD have taken a heavy toll on the political and economic identities of the CDU and Chancellor Merkel. At the same time, she and her party are vulnerable to the political effects of a declining economy and calls from within her party and the opposition for clearer and stronger public messages during a time of economic crisis. Some of the CDU party faithful lament the fading of their economic conservatism in favor of more interventionist, social-democratic policies and as a result, according to one well placed source in CDU headquarters, "CDU troop morale is at rock-bottom."

¶3. (C) This could be an early sign of the fraying of the electoral strategy Merkel defined over a year ago, when she unveiled the CDU slogan, "We are the Middle." The Chancellor's goal has been to consolidate the center of the political spectrum, a strategy that was necessitated by the

perceived leftward shift in voter sympathies. The experience of the 2005 election campaign, when Merkel ran on a platform of economic liberalism and the CDU/CSU watched its lead dwindle to almost nothing on election day, was a sobering lesson underscoring the need to anchor the center. Merkel's characteristic pragmatism and caution fit well with a centrist message, although a few lonesome voices in the CDU bemoaned the dulling of the conservative profile. During 2008, the CDU benefited from this approach, assisted by a hapless SPD, an expanding economy, and falling unemployment.

¶4. (C) Events in 2009 have shaken confidence in the CDU's approach. The global economic slowdown, rising unemployment, and dire straits for well known firms such as Opel have changed the mood in the electorate. The inopportune resignation of Economics Minister Glos (CSU), Merkel's unexpectedly vocal criticism of Pope Benedict for rehabilitating a bishop who has denied the Holocaust, and the German-Polish controversy over Erika Steinbach's role in the German foundation on expulsions have raised questions about Merkel's management of the CDU/CSU. Her criticism of the Pope was welcomed internationally and by the German center-left but did not sit well with the CSU's largely Catholic voter base, as well as with many within her own party. CSU party chief Horst Seehofer is actively trying to profile his own party following a stinging political setback in the Bavarian state elections and has often resorted to challenging the CDU. The Steinbach situation (reftel) may alienate the expellee organizations, whose membership numbers about 2 million and who are normally a bedrock of CDU/CSU support. A Merkel confidant told CDA on March 9 that the Chancellor finds herself painfully alone in her own party at

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present, and needs to reconnect with traditional core constituencies without abandoning her centrist orientation. The Steinbach episode, in particular, was an unnecessary, self-inflicted wound. This insider said Merkel would soon replace CDU Secretary General Pofalla with a tougher political infighter and campaign organizer, moving Pofalla to the Chancellery to lead her economic crisis team. Unless Merkel fires up her base, he warned, many CDU voters will either stay home on election day or vote for the Free Democrats (FDP).

¶5. (C) The SPD may finally be capitalizing on this state of affairs in the polls, but Steinmeier has yet to emerge as an effective standard-bearer with the population as a whole - he is marginally ahead of Merkel in measures of voter satisfaction (65 percent to 63 percent) but lags 14 points behind Merkel in the more specific question of whom voters would like to see as Chancellor (48 to 34 percent). The Free Democratic Party (FDP) is experiencing a political renaissance with the German electorate registering an unprecedented 17 percent in the most recent poll, but it is an open question whether the FDP's economic liberalism will remain a winning formula if the economic situation continues to deteriorate.

ENGAGING MERKEL IN A "SUPER" ELECTION YEAR

¶6. (C) Chancellor Merkel's trademark political caution explains in part her reserve in dealing with issues important to the new U.S. Administration. But Merkel's approach may also stem from an assessment that she does not stand to gain much domestically by exhibiting the same enthusiasm Steinmeier displays towards the new Administration. Because domestic politics will determine the outcome of the election, addressing the economic crisis, keeping the Grand Coalition afloat at a time when fissures are starting to appear, and keeping discord with the CSU under control are the key goals for the CDU. Foreign policy enters this electoral calculation primarily as it relates to domestic politics. She is likely to remain in a reactive mode, rather than taking initiatives to shape our bilateral agenda. A prime

example of this dynamic is Steinmeier's recent appointment of Bernd Muetzelburg as his Special Envoy for Afghanistan and Pakistan -- mirroring President Obama's appointment of Richard Holbrooke as Special Representative to Afghanistan and Pakistan -- without consultation with the Chancellery. This exposed once again proactive Steinmeier and MFA initiatives vis--vis Afghanistan and the U.S., leaving the Chancellery in the dust and overall U.S.-German coordination on Afghanistan only marginally improved if at all.

¶7. (C) German politicians across the political spectrum speculate with some trepidation about the nature of future demands emanating from the U.S. Within the CDU, there is little enthusiasm in the short term for ideas that could have a negative impact on the Chancellor's electoral fortunes, such as going beyond current plans for the German troop presence in Afghanistan (especially in the south) during an election year.

¶8. (C) There are attempts in the Union parties to define a more proactive agenda, such as the recent publication of a CDU/CSU Parliamentary Group paper entitled "Towards Closer Transatlantic Partnership." The paper strikes constructive chords on promoting closer cooperation between the United States and Europe, especially on financial market regulation, energy/climate, Russia, arms control, the Middle East, and Iran. The CDU/CSU proposals lack operational detail and do not have the stamp of approval of the senior CDU/CSU leadership, including Merkel. It will take further effort, and commitment from the Chancellor to turn this into a Transatlantic blueprint for the Union.

COMMENT

¶9. (C) Merkel remains popular with the German electorate -- she is more popular personally than the CDU is as an institution -- and the signs still suggest that she is likely to fend off the political challenge from Steinmeier and remain as Chancellor. Her reactive style in a time of economic crisis exposes her vulnerabilities, however, which the SPD will seek to take advantage of. This will have implications for how the USG engages with her. Merkel's political style emphasizes dialogue and discretion. But during a time when Steinmeier -- for domestic political gain -- and the MFA are trying to challenge Merkel's and the Chancellery's primacy in relations with the U.S., this preferred style may appear to be a brake on cooperation. We

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will continue to encourage Merkel and her inner circle to demonstrate more ambition in our common projects such as Afghanistan and Pakistan or the Middle East, while respecting her pre-election redlines (such as combat troops in Afghanistan's south). Sketching out a clear bilateral agenda early with Merkel may help counteract her desire to focus on domestic issues during a "super" election year (and may take advantage of pressures created by Steinmeier's attempts to build his stature on foreign policy). This could open up opportunities in addressing key foreign policy goals with Germany in an election year.

Koenig